Committee on Ways and Means
Democrats

Representative Charles B. Rangel - Ranking Democratic Member

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# A Decade After the 1996 Welfare Law --- Five Years of Progress Followed by Five Years of Losing Ground

## *Improvements in First Five Years Unraveling Because of Diminished Support for Work*

The second half of the 1990s saw significant increases in employment, along with equally significant reductions in poverty. For example, between 1996 and 2000 the percentage of single mothers working increased from 63.5% to nearly 73%, while the number of children in poverty declined from 14.5 million to 11.6 million. Studies have suggested that a variety of factors may have led to these impressive gains, including a vibrant economy, new and enhanced government policies supporting work, and changes in State and federal welfare policies. (In the midst of this relative prosperity, total income for some very poor families declined.)

More recently, a significant amount of this progress has been reversed. Between 2001 and 2004 (the most recent data), over five million more Americans have fallen below the poverty line, including 1.5 million children. The percentage of single mothers working also has declined. The recession that began in March of 2001 obviously may have influenced this reversal in employment and poverty data. But the 2001 recession technically lasted only 8 months, while the rise in poverty has continued for four consecutive years. A major culprit in this negative trend is the reduced value of low-wage work caused by both changes in the economy and in government policy.

The economy of the late 1990s produced not only near record low unemployment, but also real wage gains at the bottom of the income scale. For example, low-wage workers saw their pay go up by 11% between 1996 and 2000. By contrast, these same workers saw their pay dip by 0.7% between 2001 and 2005.[1]

During the mid and late 1990s, government policy also actively promoted and rewarded work.

A dramatic increase in the Earned Income Tax Credit (EITC) was phased in between 1994 and 1995, and an increase in the minimum wage was implemented in 1997. Additionally, new funding was provided for child care in the 1996 welfare legislation and $3 billion in additional funds were provided for a special welfare to work (WtW) program in 1997.

All of these policies supporting work were in response to specific demands from the Clinton Administration and Democrats in Congress. The starkest example of this fact was the increase in the EITC, which passed the House as part of a larger budget bill in 1993 without a single Republican vote. Reflecting the views of many in his party, Rep. Dave Camp (R-MI) said "this bill ...does not really cut the deficit. But it does cut one thing. This bill cuts jobs" – a prediction that proved clearly wrong on both counts.

Work supports, along with the strong economy of the late 1990s, were pulling single mothers into the workforce at the same time welfare changes were pushing them in the same direction. However, this pulling effect began receding in 2001 as did the progress in employment and poverty. By 2004, one-third of poor mothers reported they were neither working nor receiving cash welfare.[2]

Limited job gains after the 2001 recession, wage stagnation, and a dwindling federal interest in actively promoting and rewarding work all affected this outcome.

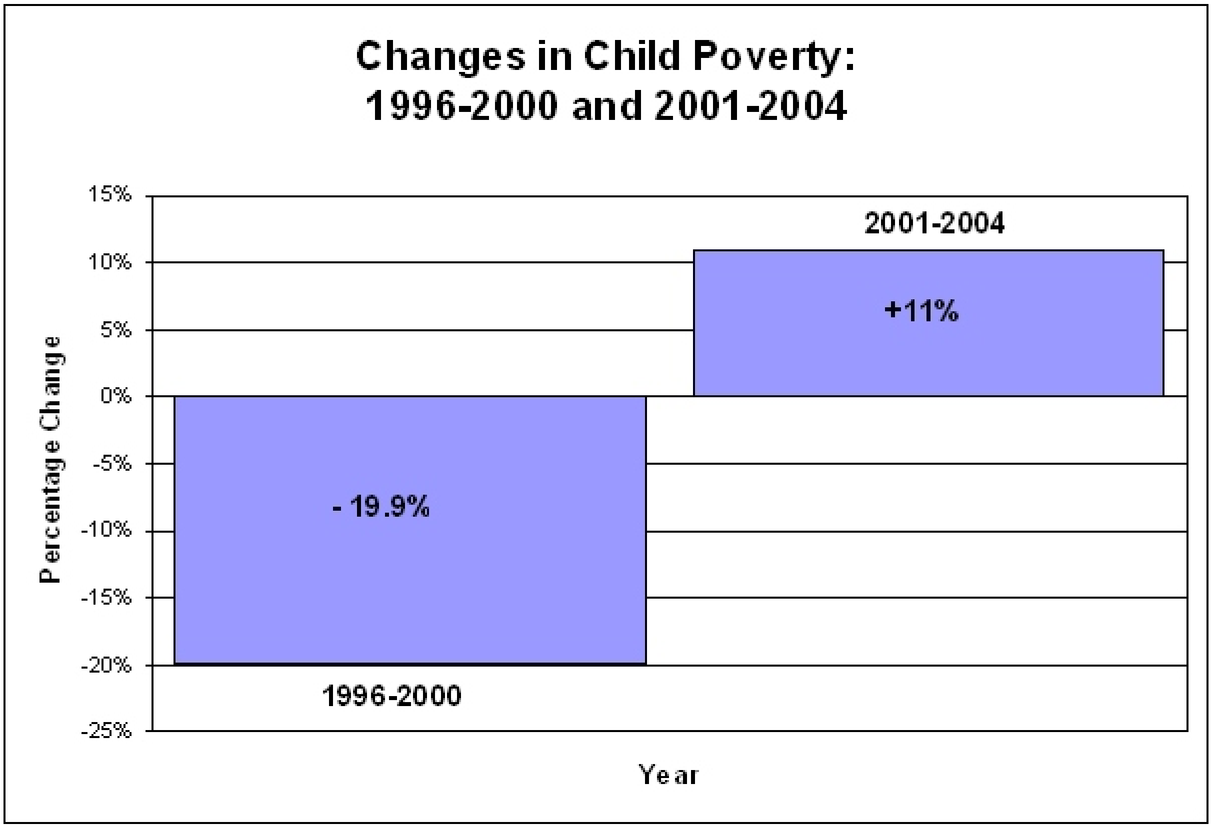
Most baffling is the lost emphasis on supporting employment. Federal funding for a variety of work-related programs, including child care, have not kept pace with inflation and have therefore lost value (and will continue to do so under the welfare provisions enacted as part of the Deficit Reduction Act). The WtW work program was not extended. No further major expansions to the EITC have been enacted since 1993. Recent federal welfare policy, including new regulations announced in June by HHS, has focused on *reducing* State flexibility to provide activities needed to remove barriers to work and to help welfare recipients find good jobs. And finally, the minimum wage has not been lifted since 1997 -- reducing its value relative to poverty to the lowest level on record. Unlike 1997, <u>even adding the EITC to minimum wage work does not lift a family out of poverty</u>.

The 10-year anniversary of the 1996 welfare reform law should lead policymakers to question what can be done to restore the progress on poverty and employment witnessed in the second half of the 1990s. To reach this goal, recent history tells us government policy should do more to actively support working Americans.

1. Workers at the 20th percentile of earnings. Based on information provided by the Economic Policy Institute.

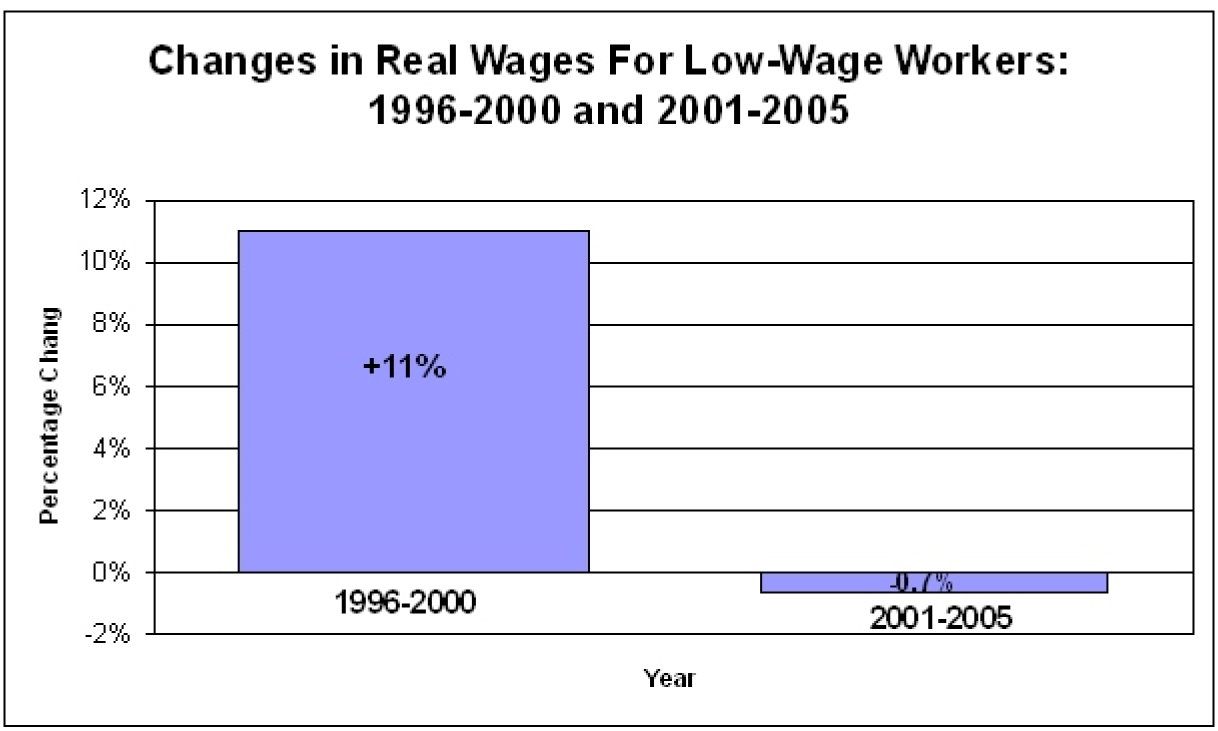
2. Based on data provided by the Congressional Research Service.

## CHILD POVERTY DECLINES, THEN RISES



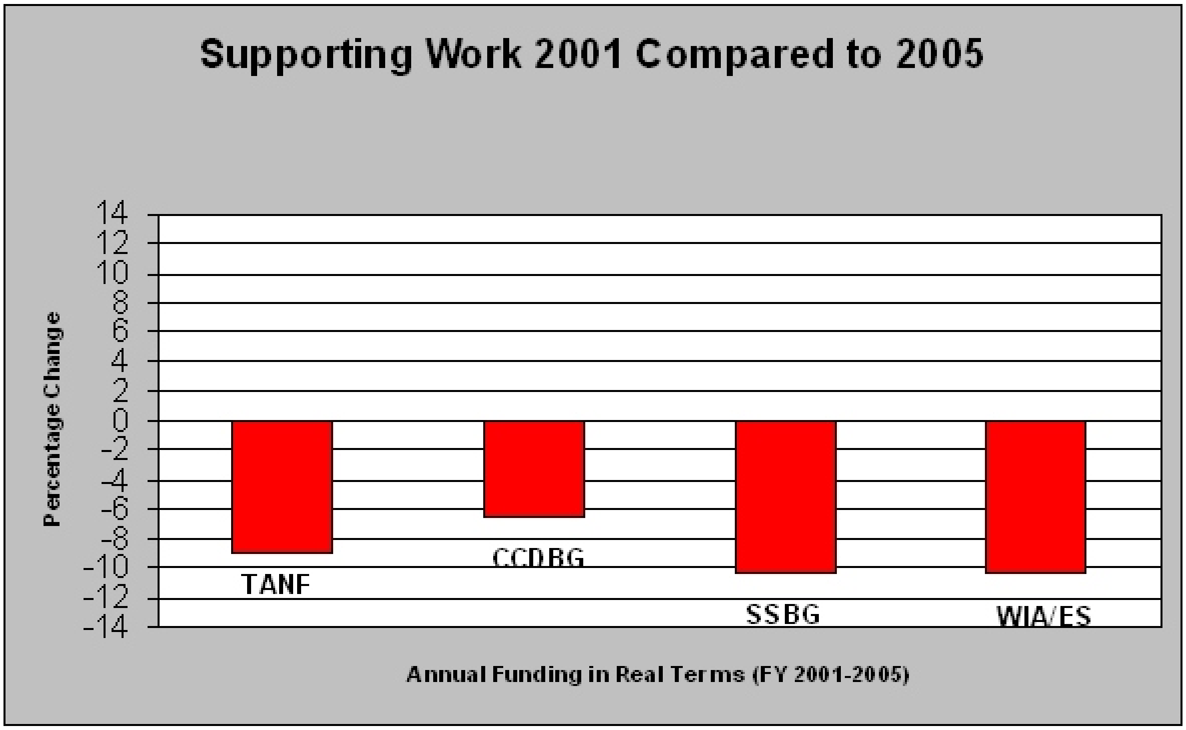

Note: Number of individuals under age 18 below poverty threshold. Source: U.S. Census Bureau

## WAGES FOR LOW-WAGE WORKERS RISE, THEN STAGNATE



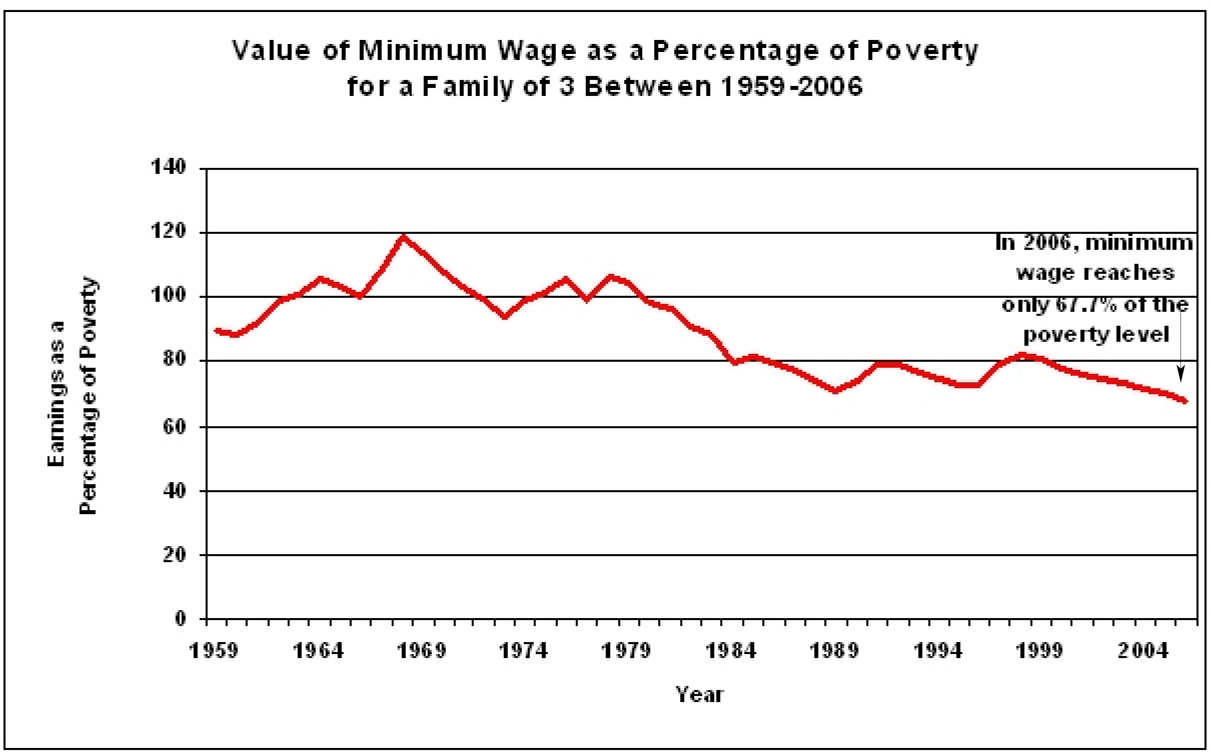

Note: Reflects wages of workers at the 20th percentile of earnings. Source: Economic Policy Institute

## PROGRAMS SUPPORTING WORK DECLINE




Note: The Congressional Research Service calculated inflation-adjusted funding levels for the four programs by using the Gross Domestic Product price deflator, which is the broadest measure of price change in the economy. Programs included in this chart are Temporary Assistance for Needy Families (TANF), Child Care Development Block Grant (CCDBG), Social Services Block Grant (SSBG), and Workforce Investment Act (WIA) and Employment Services (ES) Programs.

## MINIMUM WAGE FALLS TO LOWEST LEVEL ON RECORD




Based on full-time, full-year minimum wage earnings. Source: Congressional Research Service.

# CHANGES IN POVERTY –
# STEADY DECLINES START REVERSING IN 2001